Managing other key CR issues

Beyond our core focus areas, we recognise that we need to minimise our environmental impacts, treat suppliers fairly, engage with the investment community and pay tax responsibly.

Treating our suppliers fairly

Our suppliers play an important role in our success through the products and services they provide to our business. In return we need to treat them with respect and use our purchasing power to promote sustainability.

Due to the nature of our business, our supply chain is relatively straightforward. Most of our tier one suppliers are based in the UK and Ireland. Approximately two-thirds of our procurement spend is on services such as mailing, marketing, security, debt recovery, credit scoring and professional services (e.g. legal and accountancy services). The second highest spend relates to our information technology infrastructure (i.e. hardware, software and support). We use a high number of suppliers, ranging from small to medium-sized enterprises (SMEs), to large multinational corporations.

Despite this, our approach to CR means treating our suppliers fairly, and using our purchasing power carefully. In 2017, our spend on products and services was £335.2 million (2016: £318 million*).

* The 2016 figure has been restated to more accurately reflect the procurement costs for that year.

PAYING SUPPLIERS PROMPTLY

We are committed to paying our suppliers promptly. While it is only fair to pay all suppliers within the agreed terms, small businesses are particularly affected by late payment, which can cause cash flow problems.

We are signatories to the Prompt Payment Code, which commits us to pay suppliers within the agreed terms; give clear guidance on payment terms, procedures and any issues; and encourage good practice among our suppliers.

In 2017, as a group, we paid 86% of suppliers within 30 days and 96% within 60 days. In each part of the businesses the percentage of suppliers paid in line with principles of the prompt payment code were:

Group corporate office	96%	*(2016: 95%)*	**CCD**	93%	*(2016: 95%)*
Vanquis Bank	95%	*(2016: 95%)*	**Moneybarn**	99%	*(2016: 99%)*

UNDERSTANDING OUR SUPPLIERS TO MANAGE SUPPLY CHAIN RISKS

Managing supply chain risks is vital from the very start of our relationship with suppliers. Across the group, we want to ensure that we are working with suppliers who share our values. The supplier questionnaires we use during the supplier on-boarding due diligence process are vital to achieving this. They help us assess potential areas of risk, and understand supplier values and commitments whilst also allowing us to manage our own risks.

As awareness and importance of CR and sustainability grows, along with the need to work in partnership with others to achieve challenging goals, we decided to review the CR focussed questions that form part of the due diligence process. We used insights from our existing and extensive supplier CR questionnaire and collaborated with employees from across the group to ensure that information being assessed and provided was beneficial for both sides of the supplier agreements. We also wanted to ensure that the due diligence was time effective and that we could use one set of questions across the group that would be suitable for every single supplier to answer.

This piece of work also led us to identifying the areas within our supply chain that concern us most, one of these being modern slavery and human trafficking where we conducted additional work.

We want to use our procurement spend to promote sustainable, responsible practices. This is why we have processes in place to help us identify suppliers who share our values, and use our influence to create a fair, sustainable supply chain. By engaging with our suppliers, we can manage our indirect environmental impacts and the new streamlined, group-wide approach will help us engage more effectively with suppliers, ensure that they comply with our policy requirements and meet legislative requirements such as the Modern Slavery Act.

Vanquis Bank and CCD will adopt the new process in early 2018, with Moneybarn expected to adopt it later in the year.

PREVENTING MODERN SLAVERY IN OUR SUPPLY CHAIN

A key focus of our due diligence work has been to put steps in place to ensure modern slavery does not occur within our supply chains.

Our second Modern Slavery Statement was published in early 2018, and highlights the actions we are taking to prevent modern slavery and human trafficking in our business and supply chain. In particular we have improved our supplier questionnaire and due diligence processes, we carry out checks when employing new staff and offer a whistleblowing hotline should any of our employees have concerns regarding potential breaches of regulations or policy.

To improve internal understanding and awareness around modern slavery, we held a workshop for procurement teams from our subsidiary businesses. The workshop provided attendees with a background to the Modern Slavery Act and used corporate case studies to outline the potential risk of modern slavery or human trafficking occurring in the supply chains of reputable companies.

The workshop has increased awareness and collaboration between the different businesses, and has highlighted areas where we can make improvements. We will continue to expand on this area of work in 2018.

To read more about our work on eradicating modern slavery from our supply chains, please refer to our Modern Slavery Act Statement on www.providentfinancial.com

Minimising our environmental impacts

We want to deliver services to customers as efficiently as possible. We are working to reduce our carbon footprint, whether it is a result of the energy that is used by our offices and by our people when they travel, or indirectly through the activities in our supply chains. We are also working to reduce the resources we use such as paper, and reducing and recycling the waste we produce.

OUR 2017 PERFORMANCE

9,758

Total greenhouse gas emissions (tonnes CO_2e): 9,758
(2016: 8,435)

4,101

Total scope 1 and 2 (and associated scope 3) emissions (tonnes CO_2e) (2016: 5,115)

Intensity ratio ((kg scope 1&2 CO_2e/£1,000 of receivables):
1.71 (2016: 2.22)

5,203

Total energy use (MWh) (2016: 8,416)

729

Total waste arising from our activities (tonnes) (2016: 879)

MANAGING OUR ENVIRONMENTAL IMPACTS

A key tool in helping us to manage our environmental impacts is our Environmental Management System (EMS). Our EMS helps us to identify, assess, and reduce key environmental risks and impacts; set and deliver against environmental targets; and ensure our legal compliance. The EMS at our Bradford head office continues to be certified to ISO14001:2015.

We have begun work to extend the ISO14001 certification to all Vanquis Bank's operations. Vanquis have set up an environmental working group, and we are now updating the EMS processes and documentation to include Vanquis' offices in London and Chatham. We hope that these sites will achieve this certification during 2018.

Acting to reduce impact and adapt to climate change

We recognise the importance of acting on climate change as it poses a significant risk to the global economy and society in general. In response, we have developed a low carbon strategy to help us reduce the carbon intensity of our operations, products and services. Our low carbon strategy aims to:

- Demonstrate commitment and leadership in working towards achieving significant reductions in GHG emissions.
- Continue to measure and benchmark our energy usage and carbon dioxide performance to ensure that we adhere to best practice in carbon management and reductions.
- Establish challenging targets to enable us to be more efficient with the energy we consume and to reduce the emissions of GHGs that arise from our operations, products and services.
- Engage positively and proactively with stakeholders to ensure that the voice of the business is heard in the debate on climate change.

Identifying what environmental aspects are important to our business

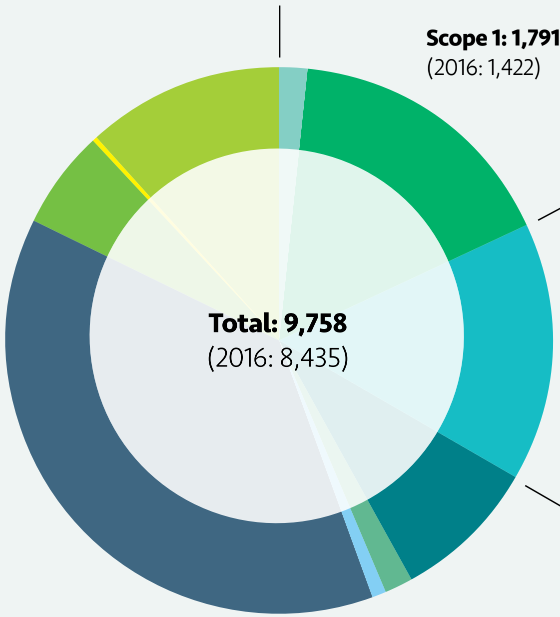
During our materiality assessment our stakeholders told us that environmental issues are a lower priority. However, we still see climate change as a key area for action. We see opportunities to move our environmental agenda forward this year, and with changing stakeholder priorities we expect climate change to increase in importance in the coming years.

We are also not immune to the risks of climate change, which have the potential to significantly impact our business. Travel is vital to the way we operate, particularly in CCD, and the cost of this is likely to rise, as are the costs of the goods and electricity we purchase. Climate change also has the potential to significantly impact our customers, both in terms of increasing living costs and job security. Extreme weather events such as flooding and storms will impact our business directly, our customers and our employees.

The key climate-related risks to our business are identified through our biennial materiality and risk management review, which is conducted by our CR team. The key risks are reported to our board via the CR team's regular briefings to the Executive committee. We will use scenario analysis to understand these risks and opportunities in greater depth during 2018 which will influence the direction and objectives of our low carbon strategy. Our strategy currently focuses on reducing our scope 1 and 2 GHG emissions but we are increasing our focus on both measuring and reducing our scope 3 emissions.

We recognise the importance of acting on climate change as it poses a significant risk to the global economy and society in general.

OUR CARBON FOOTPRINT (tonnes of CO_2e)



Scope 1 (tonnes CO_2e)	2017	2016
Gas use †	**180**	330
Diesel and petrol †	**1,611**	1,092
Scope 2 (tonnes CO_2e)		
Electricity use	**1,486**	2,728
Scope 3 (tonnes CO_2e)		
Scope 1 and 2 associated "well-to-tank" emissions †‡	**824**	966
Employee air travel	**162**	261
Employee rail travel	**88**	105
Grey fleet (employee own vehicle travel)	**3,699**	1,057
Self-employed agent car use	**565**	1,346
Waste collection and management	**16**	20
Scope 3 associated "well-to-tank" emissions ‡	**1,127**	530

* Our emissions are reported in accordance with WRI/WBCSD Greenhouse Gas ('GHG') Protocol. We use an operational control consolidation approach to account for our GHG emissions and use emission conversion factors from Defra/DECC's GHG Conversion Factors for Company Reporting 2017. Our GHG emissions are calculated using energy use data accessed via meters and energy suppliers, and from records of fuel use, business travel bookings and waste management data.

† Mandatorily reported emissions to meet the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

‡ GHG emissions associated with the production, transportation and distribution of fuels used by transport and utilities providers.

SCOPE 1, 2 AND 3 EMISSIONS

SCOPE 1 emissions are direct emissions from sources owned or controlled by us e.g. gas used in our boilers or petrol in company cars.

SCOPE 2 emissions are indirect emissions from the generation of purchased energy in our business, specifically from electricity.

SCOPE 3 emissions are all other indirect emissions, or emissions created on our behalf. The scope 3 emissions we calculate cover our employee's travel by train, plane and in their own vehicles, waste management and well-to-tank emissions associated with the production of fuel.

Scope 1 and 2 emissions – Gas, company vehicles and electricity

During 2017, our scope 1 and 2 emissions and associated scope 3 emissions accounted for 4,101 tonnes of CO_2e. This meets our target of reducing our scope 1 and 2 CO_2 emissions by 30% by 2020 vs a 2015 baseline.

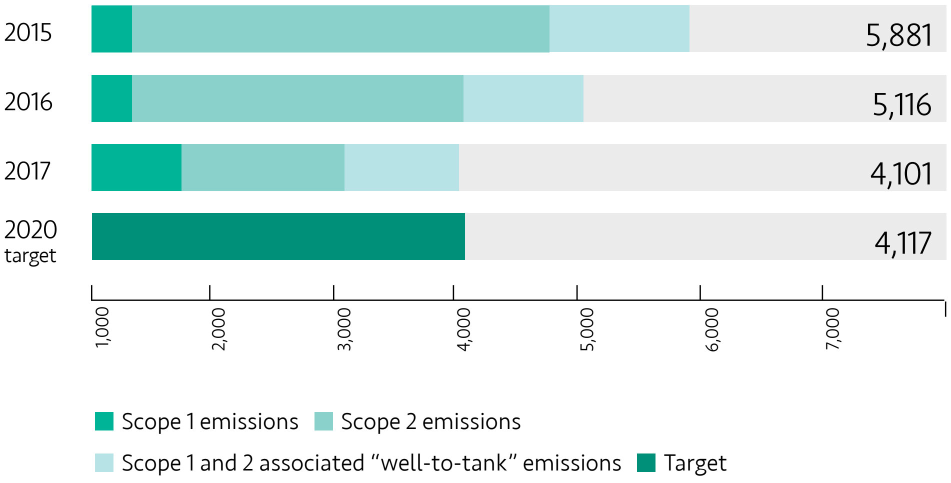
We have met this target despite an increase in company car travel due to the inclusion of data from Moneybarn, which had not previously been included. Some of these reductions are linked to the reorganisation of CCD and the closure and amalgamation of some branch offices. We have also seen reductions due to the introduction of building management systems and other efficiencies.

Intensity ratio

1.71

Scope 1 and 2 (and associated scope 3) kg of CO_2e/£1,000 of receivables(2016: 2.22)

Scope 1 and 2 (and associated scope 3)



Scope 3 emissions and business travel

Our scope 3 emissions on the other hand have increased. This is primarily due to more accurate data but also reflects how the business has changed.

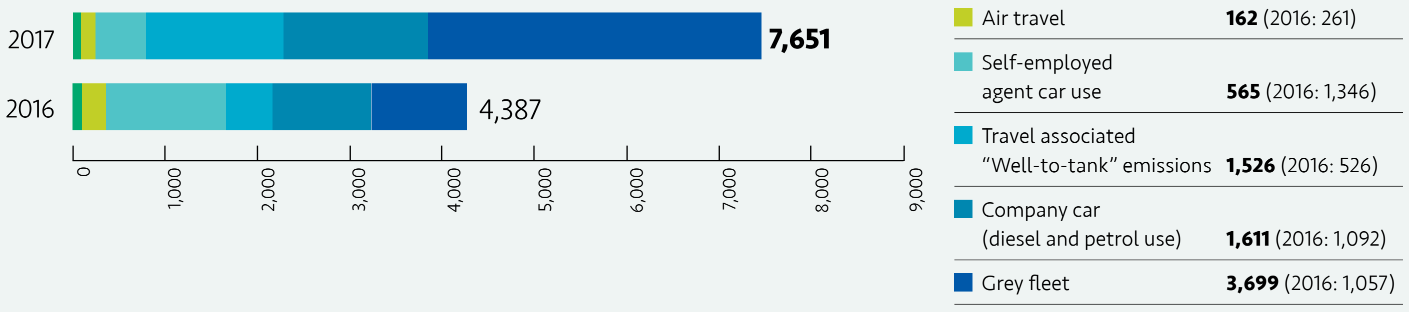
Due to the self-employed agent structure ending in July, the number of miles travelled by self-employed agents, which we estimated, has reduced. In its place the number of miles travelled by our 'grey-fleet' (travel by employees in their own vehicles) has increased. This figure now includes journeys by our Customer Experience Managers (CEMs), other field staff and some travel by Moneybarn employees. This data is more accurate because, as the CEMs are employees, their mileage is tracked through the expenses system. This means we can much more accurately report and analyse our business travel each year.

While travel by car, both in company cars or in employees' own vehicles, has risen significantly, travel by rail and air has reduced, this again reflects the changes that have taken place in CCD.

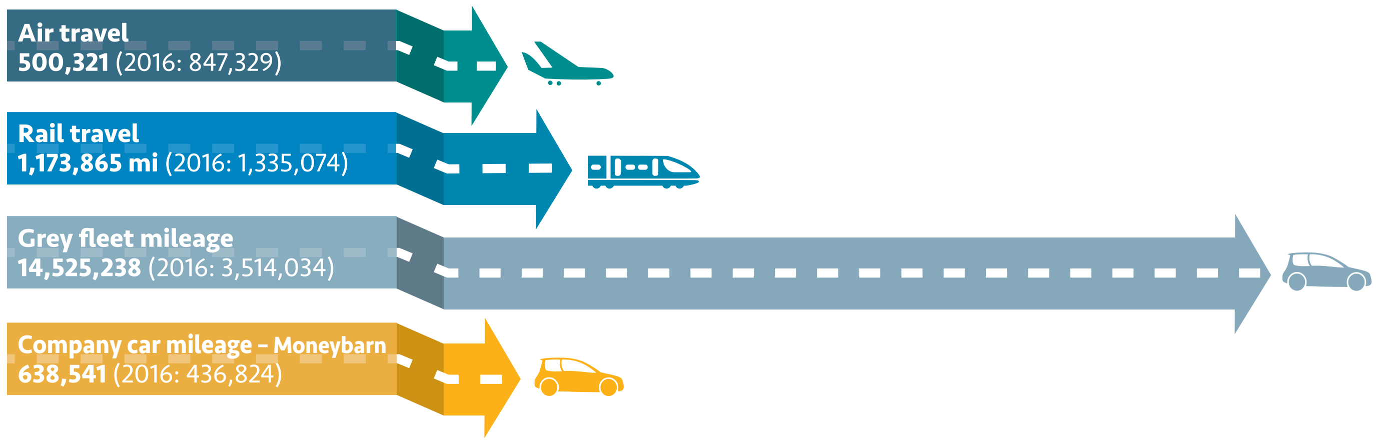
We now account for all business travel across the group except for ferry trips between Great Britain and Ireland, London Undergrdound, taxis and buses. This is due to the complexity of the data gathering and analysis process. We will work with our travel agents and finance teams to ensure we can improve our measuring and reporting in these areas for next year.

Business travel contributes a significant contribution to our overall carbon footprint. During 2017, the business-related journeys made by employees and the self-employed agents across the group accounted for 7,651 tonnes of CO_2e, 72% of our total carbon footprint.

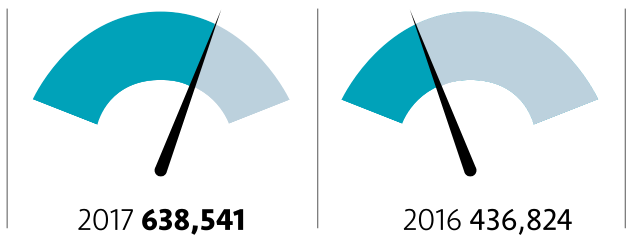
Business travel GHG emissions *(tonnes of CO_2e)*



Business travel distance *(miles)*



Company car fuel consumption *(litres)*



Reducing the carbon intensity of our operations through carbon offsetting

We continue to offset all our operation carbon footprint. To offset these emissions, we finance renewable energy projects around the world which help to mitigate the effects of climate change.

During 2018, we offset 9,758 tonnes of CO_2e through Gold Standard-certified carbon credits. The Three Provinces Clean and Efficient Cookstoves project we supported delivers clean and efficient biomass cookstoves to households in rural areas of China.

The biomass cookstoves replace carbon-intensive sources of energy such charcoal, the traditional fuel. However, they do not just reduce GHG emissions, the use of biomass stoves helps to improve families' health through reduced air pollution, saves them money, puts agricultural waste to good use and reduces reliance on fossil fuels.

Reducing and managing waste

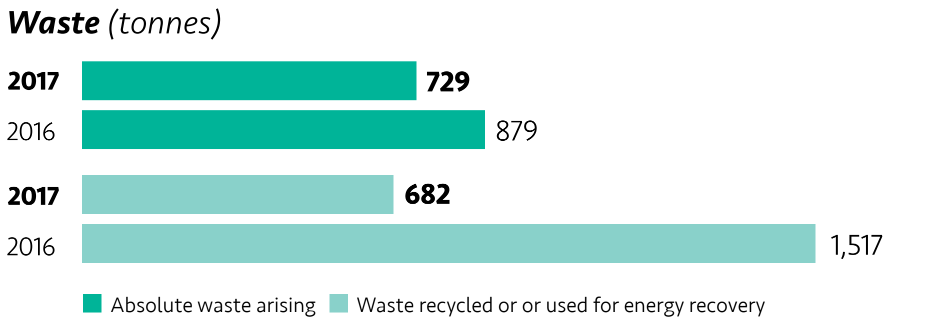
As an office-based business paper dominates our waste streams. We are committed to reducing this and sending less to landfill. During 2017, we generated 729 tonnes of waste, 17% less than in 2016. Of this, 94% (685 tonnes) was diverted from landfill. Most was used for energy recovery, whilst 12% was recycled. The GHG emissions associated with waste amounted to 16 tonnes.

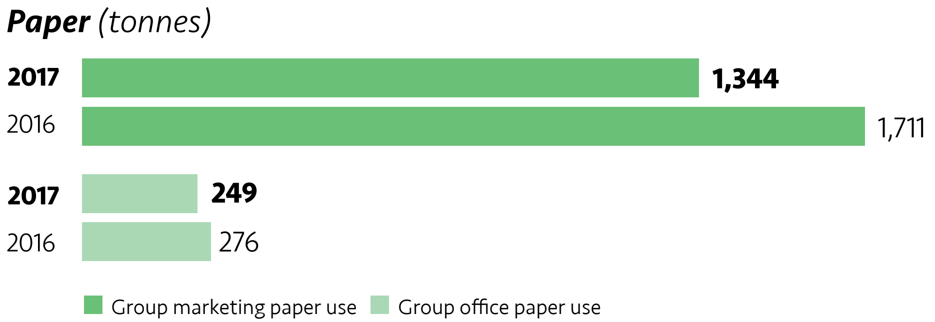
Due to the changes in the CCD branch structure we have postponed our target to review waste management arrangements across all branch sites and our Head Office. Once the new branch structure has stabilised we will identify a new waste management contract and focus on identifying opportunities to minimise the waste sent to landfill and to increase our recycling rate.

We continue to reduce the paper we use for both office and marketing purposes. The paper we do use either contains a high recycled content or is made from sustainably sourced timber.

ENERGY RECOVERY

Also known as Energy from Waste, energy recovery converts non-recyclable waste materials into heat, electricity or fuel via combustion, anaerobic digestion and other processes.





Engaging with the investment community through CR

CR and sustainability is a growing area of interest for many corporations and organisations both large and small. CR forms a key part of our business strategy and our investors are increasingly interested in a broad spectrum of CR issues including responsible lending and customer satisfaction.

Just as we are looking at the values of our suppliers and our partners to ensure we are working with other businesses and community groups who have sustainability as a key part of their business strategy; our investors are increasingly interested in our values. They are looking beyond our key issues of responsible lending and customer satisfaction to a broad spectrum of CR issues, including climate change, social and governance issues as well as business ethics and community investment. Because both our investors and ourselves believe that all these areas of focus are vital to the sustainability of our business, CR will continue to remain an integral part of our business strategy, social purpose and values, as well as being integrated into our products, services and stakeholder outreach.

Year-on-year, we have increased the coverage of CR in our corporate Annual Report and Accounts. This allows us to broaden the reach of our communications on CR to stakeholders and other interested parties. Investors often review our level of commitment to CR and sustainability, and the information published in the Annual Report and Accounts is often referenced. Above this, regulation also requires us to to disclose this type of information, particularly in relation to carbon emissions and diversity.

OUR 2017 PERFORMANCE

Continued presence within the Euronext Vigeo and Forum ETHIBEL indices.

75

Dow Jones Sustainability Indices score (2016: 65 out of 100)

96

FTSE4Good score (2016: 95 out of 100)

C AWARENESS

CDP scoring level (2016: C Awareness)

ENGAGING WITH INVESTORS THROUGH SUSTAINABILITY INDICES

Sharing information with the investment community and being represented within specific investment indices and registers which focus on sustainability matters is an important part of our approach to CR. It enables us to provide investors and other stakeholders with demonstrable evidence of our commitment to operating in a sustainable and responsible manner. In 2017:

CDP – We once again made our annual submission of climate change data to CDP (formerly the Carbon Disclosure Project). CDP requests information on the risks and opportunities of climate change from the world's largest companies, on behalf of 827 institutional investor signatories with a combined US$100 trillion in assets. Through the CDP submission, we can inform investors of any material climate change-related risks and opportunities and how we manage them.

Our 2017 CDP submission was rated 'C Awareness' demonstrating that we have knowledge of our impacts on climate change and of climate change issues more broadly. Our CDP submissions are published at www.cdp.net.

Dow Jones Sustainability Indices – We were included in the Dow Jones Sustainability Europe Index (DJSI Europe) and were delighted to be added back into the Dow Jones Sustainability World Index (DJSI World), after not being selected as a member in 2016.

Our DJSI score was 75 (2016: 65) which is considerably higher than the sector average of 40 (2016: 43) for the Diversified Financial Services and Capital Markets industry sector. The DJSI World represents the top 10% of the largest 2,500 companies in the S&P Global BMI, and the DJSI Europe selects the top 20% of the largest 600 European companies in the S&P Global BMI based on long-term economic, environmental and social criteria.

FTSE4Good – Following the annual review undertaken by the FTSE4Good Advisory Committee, we were once again included in the FTSE4Good Index Series. Our overall score was 96 out of 100 (2016: 95 out of 100).

The FTSE4Good is an extra-financial market index, which measures the performances of over 800 companies against a range of environmental, social and governance (ESG) criteria. To be included in the FTSE4Good Indexes companies must: support human rights, have good relationships with the various stakeholders, be making progress to become environmentally sustainable, ensure good labour standards in their own company and in companies that supply them, and seek to address bribery and corruption.

Forum ETHIBEL – In September 2017, we were reconfirmed as constituent of the Ethibel Sustainability Index (ESI) Excellence Europe index. The ESI Excellence Europe index is an investment register of companies that show the best CR performance. Inclusion is based on our performance against a wide range of CR parameters and consultation with relevant stakeholders.

Euronext Vigeo – We continue to be included on three Euronext Vigeo indices:

- The Euronext Vigeo World 120 – the 120 most advanced sustainability performing companies in Europe, North America and Asia Pacific;
- the Euronext Vigeo Europe 120 – the 120 most advanced sustainability performing companies in Europe; and
- the Euronext Vigeo United Kingdom 20 – the 20 most advanced sustainability performing companies in the UK.

To be included within these indices, analysts reviewed our policies, processes and performance against 330 indicators within seven sustainability domains including human rights, environment, human resources and community involvement. The information is used by institutional investors, and pension fund and asset managers as a reference guide for incorporating environmental, social and governance factors into investment decision-making and stewardship.

What makes us a responsible tax payer

OUR TAX STRATEGY

Our tax strategy, which was last updated and approved by our board in May 2018 and can be accessed on our website at www.providentfinancial.com, follows our corporate mission and values.

We are committed to being a fair and responsible tax payer, operating in an open, honest and straightforward manner in all tax matters and being fair and reasonable in all our dealings with tax authorities. We seek to ensure that we comply with all tax rules and regulations in each territory in which we operate. While we safeguard our reputation as a responsible taxpayer, we recognise that we also have a responsibility to protect shareholder value by managing and controlling our tax liabilities.

Our tax strategy is aligned with HM Revenue & Customs' (HMRC) Code of Practice on Taxation for Banks ("the Code") which sets out the principles and behaviours expected of banking groups with regard to tax, and we have unconditionally adopted the Code.

Our tax strategy is supported by our tax procedures manual which sets out how the objectives and policies set out in our tax strategy are achieved, as well as setting out further details of our tax risk management framework.

The key features of our Tax Strategy are summarised overleaf.

Our Tax Strategy

TAX OBJECTIVES

- To ensure we pay the tax we are legally obliged to pay and comply fully with our obligations in all territories in which we operate
- In a manner commensurate with the group's appetite for risk, to minimise the group's liability to taxes
- To safeguard the group's reputation as a responsible tax payer

TAX POLICIES How we achieve the objectives

Calculation and payment of taxes, tax returns and other tax obligations

Taxes should be correctly calculated and paid when due, tax returns should be filed correctly on a timely basis, and all other tax obligations fully complied with.

Managing and controlling tax liabilities

Ordinary commercial transactions should be structured, with clear and unambiguous legislative support, so that tax liabilities are controlled and minimised.

Artificial structures designed to save tax but with no commercial or economic substance or which give a result which is inconsistent with the underlying economic position will not be considered unless there is specific legislation designed to give that result and this is not contrary to the intentions of Parliament. Where there is any doubt on this, an approach should be made to HMRC to confirm the position prior to the transaction being undertaken.

Dealing with tax authorities

We are committed to dealing with tax authorities openly, honestly and proactively. This includes having a regular and constructive dialogue with HMRC across all taxes, seeking advance clearance where the tax treatment is uncertain, discussing contentious issues as early as possible and making full disclosure of key transactions in relevant tax returns.

Mitigating and controlling tax risk

Our tax strategy sets out how tax risk is mitigated and controlled by:

(a) Developing robust, documented systems, processes and internal controls to ensure the correctness and completeness of data which needs to be captured and treated correctly in the various tax reporting and payment of taxes that the group is required to make.

(b) Setting principles for the involvement of the in-house group tax function in transactions and business developments, the allocation of responsibilities between group tax and the business units and principles for the involvement of external advisers.

TAX RISK MANAGEMENT FRAMEWORK How we identify and report on tax risk

Our tax risk management framework identifies and reports on tax risk across the group. It is embedded into the group's overall risk management framework and governance structure and operates a "3 lines of defence" model: the first line involves the operational identification, assessment and management of risk; the second line involves independent review and challenge of first line actions against established risk appetites; and the third line is independent assurance.

In relation to tax risk it involves the following:

(a) The identification, evaluation and management of tax risk by the in-house group tax function working with the Finance Director and the business units.

(b) Independent review and challenge of first line actions by (a) the quarterly finance forum chaired by the Finance Director and attended by the divisional finance directors and the heads of tax, internal audit, treasury and risk; (b) the risk advisory committee; and (c) twice yearly by the audit committee; and (d) the board.

(c) Independent assurance provided through an annual review by the internal audit function of different aspects of the processes and internal controls underpinning the reporting and payment of UK taxes.

OUR TOTAL TAX CONTRIBUTION IN 2017

We seek to ensure that we pay the tax we are legally required to pay in the territories in which we operate. As we operate primarily in the UK and generate most of our profits from UK operations, most of the tax we pay is UK tax. Apart from our home credit business in the Republic of Ireland (ROI), we do not operate in, or generate income in, any other territory.

Our total tax contribution comprises the direct tax we contribute to governments out of our own financial resources as well as the indirect tax we collect on behalf of governments, such as employment taxes deducted from payments to employees. Over the last 5 years, our total tax contribution has shown sustained growth:

	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m		
					UK	ROI	Total
Direct tax contribution							
Corporation tax	40	45	48	57	39.9	0.1	40
Bank corporation tax surcharge	-	-	-	8	15.0	-	15
Employer's national insurance and equivalent	14	15	16	18	22.4	0.6	23
Irrecoverable VAT	12	17	21	22	27.6	0.4	28
Business rates	3	3	3	3	3.0	-	3
	69	80	88	108	107.9	1.1	109
Indirect tax contribution							
Employees' income tax and national insurance (through PAYE)	38	42	44	46	57.3	1.7	59
Tax deducted from interest paid on Vanquis Bank deposits (note 3)	2	3	3	2	-	-	-
	40	45	47	48			59
Total tax contribution	**109**	**125**	**135**	**156**	**165.2**	**2.8**	**168**

Note 1: For 2013 to 2015, the above includes small amounts of Polish taxes paid in respect of Vanquis Bank's pilot operation in Poland.

Note 2: Our home credit business operates as a branch in the Republic of Ireland (ROI). In 2017, it generated revenue of £45m (2016: £50m) and profits of £2.0m (2016: £4.7m) and had, on average, 136 (2015:130) employees.

Note 3: In the first 3 months of 2016, prior to the abolition of the requirement to withhold tax from interest on retail deposits, £2m of basic rate income tax was withheld from such interest and paid to the UK Government.

Our direct tax contribution comprises:

- **Corporation tax**
  This is the tax on the profits we generate in the UK and the Republic of Ireland. In the UK, corporation tax is paid in quarterly instalments whereby 50% of the estimated corporation tax liability for the year is payable in the year concerned with the remaining amount in the subsequent year. Tax paid in 2017 comprised around 50% of the corporation tax liability for 2016 and 50% of the estimated liability for 2017. The reduction in corporation tax paid in 2017 arose as a result of the losses generated in the home credit business in 2017 which substantially reduced the group's estimated corporation tax liability for 2017.

- **Bank corporation tax surcharge**
  A bank corporation tax surcharge of 8% was introduced with effect from 1 January 2016. It applies to the taxable profits of Vanquis Bank above £25m and, like corporation tax, is also payable through quarterly instalments. The bank corporation tax surcharge liability did not benefit from the losses generated in the home credit business in 2017 as tax law prohibits this.

- **Employer's National Insurance Contributions**
  In July 2017, we fundamentally altered the operating model of our home credit business in the UK such that customers ceased to be served by self-employed agents; instead brand new employed roles were created tasked with serving customers in a way which was controlled and directed entirely by the business. As a result of these changes, as well as increases in employee numbers in Vanquis Bank and Moneybarn, the average number of employees we employed in 2017 increased to 4,864 (2016: 3,550) which resulted in the 13.8% UK employer's National Insurance Contributions and the equivalent in the Republic of Ireland increasing to £23m (2016: £18m).

- **Irrecoverable VAT**
  As a provider of loans and other credit products, we are unable to recover VAT on most of the costs we incur. In 2017, £28m (2016: £22m) of our direct tax contribution comprised irrecoverable VAT incurred by our businesses.

- **Business rates**
  The remaining £3m of our 2017 direct tax contribution (2016: £3m) comprised business rates payable on the various business premises we occupy.

Employer's National Insurance Contributions, business rates and irrecoverable VAT are taken into account in arriving at profit before tax. Irrecoverable VAT on capitalised costs is accounted for as part of the cost of the underlying asset.

Corporation tax and bank corporation tax surcharge are accounted for through the tax charge as explained in Note 5 to the Annual Report and Financial Statements, which can be found at www.providentfinancial.com. The corporation tax and bank surcharge we paid in 2017 of £55m differed from the current tax charge for the year of £5m due primarily to the timing of quarterly instalment payments in the UK as well as the impact of settling historic tax liabilities.

Our indirect tax contribution comprises:

- **Employees' income tax and National Insurance Contributions**
  This represents the income tax and employees' National Insurance Contributions and the equivalent in ROI that we deduct from amounts paid to employees through PAYE. In 2017 it increased to £59m (2016: £46m) due primarily to the change of operating model in the UK home credit business.

The self-employed agents which were engaged by our UK home credit business up to July 2017 and the agents which continue to be engaged by our home credit business in the Republic of Ireland are responsible for paying their own tax and National Insurance Contributions (and equivalent) on the commission we pay them. We recognise that this has the potential to result in non-compliance when it comes to paying the right amounts of tax. We seek to ensure that all agents properly account for taxes on the commission we pay them by providing guidance on their tax obligations and ensuring that agents receive statements of their commission showing the amounts they need to report for tax purposes. We also work collaboratively with the tax authorities in the UK and the Republic of Ireland to ensure that commission payments paid to agents are reported.

TAX RISK MANAGEMENT AND PRINCIPAL TAX RISKS

Insight into risk management and the principal risks facing the group in 2017 is set out on pages 47 to 50 of the Annual Report and Financial Statements 2017. In relation to tax risk, a summary of the principal risks and how we mitigate those risks is as follows.

Risk	Mitigation
Tax authorities in the UK and the Republic of Ireland challenge the historic employment status of our home credit agents in the UK and the Republic of Ireland.	• Whilst we have previously agreed the self-employed status of agents with the tax authorities in the UK and the Republic of Ireland, no assurance can be given that the tax authorities will reach the same conclusion in any subsequent challenge. Were we to be unsuccessful in defending any such challenge, we may be required to pay additional taxes, including PAYE and National Insurance Contributions to the relevant authorities which could be material. • Policies and procedures are in place which seek to ensure that agents engaged by the home credit business in the Republic of Ireland and in the UK business up to July 2017 maintain their self-employed status. As in prior years, testing was carried out by the divisional risk function in 2017 to provide assurance that such policies were being complied with. • In keeping with our strategy of keeping HMRC informed of key business changes potentially impacting the self-employed status of agents, during 2017 we held several discussions with HMRC in advance of the proposed changes to the UK home credit operating model.
The risk that the group suffers a loss as a result of unexpected tax liabilities.	• We have a number of other tax risks including corporation tax, VAT and employment taxes. These include the risk that tax authorities take a view that is different to the view that we have taken on the treatment of particular items in our tax returns. They also include the risk that there is an unforeseen breakdown in the systems and processes which underpin the preparation of tax returns and identification of tax sensitive matters which results in an item being treated incorrectly for tax purposes. • We carry a provision for uncertain tax liabilities which is sufficient to cover possible tax audit and enquiry issues based on an assessment of the probability of such liabilities falling due. Part of this provision was released in 2017 following the settlement of legacy corporation tax matters.

Risk	Mitigation
	• In keeping with our strategy of having a regular and constructive dialogue with HMRC across all taxes: o We highlighted key features in the 2016 corporation tax returns, in particular the crystallisation of capital losses on investments which had declined in value and the capital gain which arose on the disposal of Vanquis Bank's interest in Visa Europe Limited. o We discussed the proposed working arrangements for the new employed roles in the UK home credit business and the proposals for reimbursing travel costs on a tax free basis. o In early 2018, we discussed the various steps undertaken to address the distributable reserves issues caused by the significant losses in home credit in 2017, including releases of intragroup debts and the structuring of the rights issue in 2018. We also discussed the tax treatment of the settlements payable to Vanquis Bank customers following the resolution reached with the FCA. • We place considerable importance on having in place robust processes and internal controls to ensure the correctness and completeness of data which needs to be captured and treated correctly in the various tax returns that the group is required to make. As well as allowing the annual Senior Accounting Office certification to be made, these processes are a key control in our overall tax governance framework, providing assurance that tax sensitive issues are identified and taxes are correctly calculated. • The internal audit function carried out its annual review of different aspects of the operational effectiveness of processes and internal controls over UK corporation tax, UK VAT returns and UK employment taxes. • An experienced central in-house tax function is in place, supported by tax aware personnel in the businesses, which deals with, or has oversight of, all our tax matters. In early 2017, the Head of Tax presented to the board on key tax developments and progress on risks. • Expert third party tax advice is obtained on all material transactions and wherever the necessary expertise is not available in- house. During 2017, advice was obtained on a range of issues, including structuring of the rights issue and related steps to address distributable reserves and the tax treatment of settlements payable to Vanquis Bank customers.